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FEDERAL COMMUNICATIONS COMMISSION
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February 25, 1999

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, SW, Room TWB-204
Washington, DC 20554

Re: Notice of Ex Parte Meeting
In the Matter of Access Charge Reform, CC Docket No. 96-262; Price
Cap Performance Review for LECs, CC Docket No 94-1; MCI
Telecommunication Corp. Emergency Petition for Prescription, CC
Docket No. 97-250; 96-45/Federal State Joint Board on Universal
Service; and Consumer Federation of America Petition for
Rulemaking, RM-9210.

Dear Ms. Roman Salas,

On Wednesday, February 25, 1999, Leonard Cali, Kevin Joseph, Joel Lubin, and I met with Kevin Martin, Legal Advisor to Commissioner Furchtgott-Roth, concerning matters related to the referenced proceedings. We discussed the arguments reflected in AT&T's filings in these proceedings concerning access reform and LEC pricing flexibility. The written presentation used at the meeting is attached.

Two copies of this Notice are being submitted in accordance with Section 1.1203 of the Commission's rules.

Sincerely,

A handwritten signature in cursive script that reads "Bruce K. Cox".

Attachment

cc: Kevin Martin

*Access Charge Reform
for
Local Exchange Carriers*

Access Reform

AT&T's position....

- Competition robust enough to drive down access rates has not developed anywhere in the nation, and the ILECs continue to price at the upper limit in every basket
- The FCC's market-based approach to access reform is not working
- Access charges must be reduced to cost before RBOC 271 entry

Access Reform

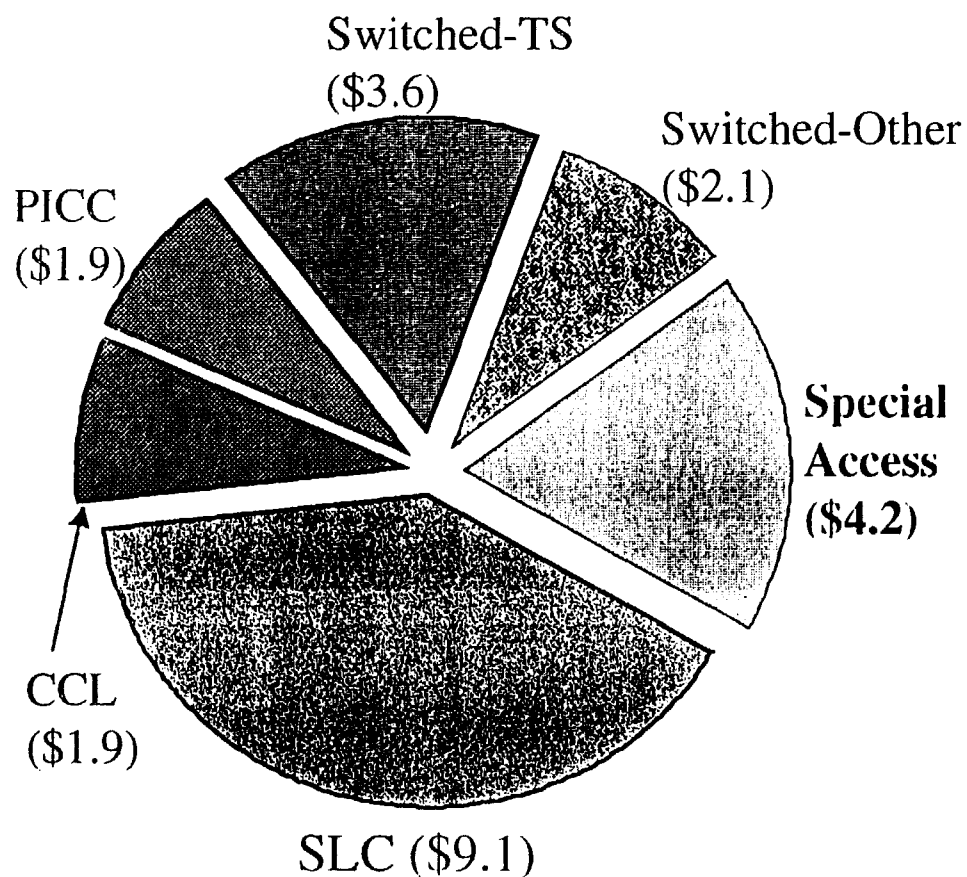
Update and Refresh Record

AT&T's position continued....

- The FCC should prescribe that Access rates be set at Economic Cost using FLEC principles
- The FCC should increase the X-Factor to reflect interstate only data, rather than total company productivity data

Access Cost By Major Categories

-- All Price Cap Companies



In Billions (\$)

- SLC \$ 9.1
- CCL \$ 1.9
- PICC \$ 1.9
- Switched-TS \$ 3.6
- Switched-Other \$ 2.1
- Special Access \$ 4.2

Total All Companies \$22.8

Price Cap Companies

(Rate of Return by Basket)

(1997 - Base Year)

| | Common Line Basket | Switching Basket | Trunking Basket | Total |
|---------------------------|-------------------------------|-----------------------------|----------------------------|--------------|
| Price Cap LECs | 8.88% | 45.16% | 15.29%* | 15.09%* |

***If Special Access is removed the Rate of Return would be higher.**

Price Cap Regulation-- Reinitialization of Interstate X-Factors

| Reinitialize to: | Current X=6.50% | Reinitialize to 8.40% | Reinitialize to 9.30% | Reinitialize to 10.20% |
|-----------------------------|----------------------------|----------------------------------|----------------------------------|-----------------------------------|
| July 1998 | N/A | (\$442) | (\$651) | (\$860) |
| July 1997 | N/A | (\$886) | (\$1298) | (\$1765) |
| July 1996 | N/A | (\$1320) | (\$1947) | (\$2565) |
| July 1995 | (\$370) | (\$2029) | (\$2952) | (\$3781) |
| | | | | |

***Impact of Lowering the Switching
Basket to a lower Rate of Return is:***

***Switching
Basket ROR***

Access Reduction

45.16%*
11.25%
10.00%
9.50%

\$0.00
\$2.04B
\$2.11B
\$2.14B

* Equals the Switching Basket ROR for 1997

Industry Contribution Analysis

Non-Rural Only

| <i>Contribution from SLC</i> | | | | | |
|-------------------------------------|------------------------------------|--------------------------------|---|-------------------------------------|-----------------------------|
| Company | 1998 Switched Lines (Thousands) | 25% of Hatfield Loop & Port | Composite SLC Rate (as of 1-1-99) | <i>Contribution from SLC</i> | |
| | | | | Per Line Per Month (\$) | Annualized (\$ Millions) |
| Total RBOCs | 130,779 | \$3.19 | \$4.86 | \$1.67 | \$2,616 |
| All Price Caps | 162,302 | \$3.41 | \$4.83 | \$1.42 | \$2,771 |

Industry Contribution Analysis -- Price Cap ILECs Only

Contribution from Interstate Switched Access Carrier Rates

| Company | 1988 Total Estimated Switched AMOU (Millions) | <u>Switched Access per AMOU</u> | | <u>Contribution from Access</u> | |
|--|---|---------------------------------|--------------------------------|---------------------------------|------------------------------|
| | | Economic Cost* (Blended HAI) | ILEC Rates** (as of 1/1/99) | Per Access Minute*** | Annualized Total (\$M)*** |
| Total RBOCs | 417,014 | \$0.00255 | \$0.01454 | \$0.01199 | 5,001 |
| Total All Price Cap | 510,770 | 0.00305 | 0.01586 | 0.01281 | 6,545 |
| Plus PICC Charges | | | | | 1,865 |
| Less USF Flowback | | | | | 791 |
| Total Contribution with PICC and without Flowback | | | | | 7,619 |
| | | | | | |

Notes:

* HAI Version 5.0a (*80% Dedicated and 20% Tandem)

** Switched Access Unit Cost without PICC Charges and with USF Flowback

*** Includes USF Flowback of \$791 Millions

The ILEC's USF assessment (obligation), should be removed from Interstate Carrier Access charges. This would reduce carrier access charges by over \$800M.

ILECs should recover this obligation directly from their end user (retail) customers.

Access Reduction

Interstate Non-Rural

If the current Mutual Compensation Rates* are used as a Proxy for Interstate Access Cost/Prices, we estimate this would still produce a reduction of over \$5B in interstate switched access cost.

*** Mutual Compensation rates for Ameritech, Bell Atlantic (Excluding Nynex), BellSouth, Pactel are .544¢, .439¢, .412¢, .373¢ per minute, respectively.**

Conclusion...

There are no implicit subsidies in Interstate Access Charges which support USF for Non-Rural LECs.

These monopoly access profits result from:

- 1. Excess earnings measured against their current cost of capital and current investment on the books**
- 2. Investment on their current books is overstated based upon recent FCC audits.**
- 3. Misallocated costs between regulated versus unregulated services.**
- 4. Investments in international ventures**
- 5. Misallocation of cost between retail versus carrier to carrier service.**
- 6. Excess/Inefficient Plant.**